Statement

Kateri Callahan, President
The Alliance to Save Energy

Senate Small Business & Entrepreneurship Committee Hearing on "Challenges and Opportunities for Small Businesses Engaged in Energy Development and Energy Intensive Manufacturing"

July 14, 2015

Chairman Vitter, Ranking Member Shaheen and Committee Members, thank you for the opportunity today to testify about the important role of energy efficiency in small business financial health.

My name is Kateri Callahan and I am the president of the Alliance to Save Energy. The Alliance is a bipartisan, nonprofit coalition of nearly 140 businesses, organizations and institutions — spanning every sector of our economy — that work to advance energy efficiency worldwide. Founded in 1977 by Senators Charles Percy, a Republican from Illinois, and Hubert Humphrey, a Democrat from Minnesota, we are honored to continue the Alliance's history of bi-partisan leadership with 14 Members of the House and Senate currently serving as Honorary Members of our Board of Directors. Among our Honorary Board Members from this Committee who are helping us to advance energy efficiency are Alliance Honorary Chair Jeanne Shaheen, Senator Edward Markey and Our Honorary First Vice-Chair Chris Coons.

Since the founding of the Alliance to Save Energy, our country has made great strides in driving energy efficiency throughout our economy by means of new technologies, and private and public investment through adoption of sound public policies. The United States has doubled its energy productivity -- we now get twice as much gross domestic product (GDP) from each unit of energy consumed than we did in the 1970's — and this translates into real savings for American consumers and businesses on their energy bills. According to ACEEE, America's

collective energy bill was reduced by $800 billion in 2014 thanks to energy efficient technologies, practices and policies.

But as considerable as the energy efficiency success story has been to date, we must continue to innovate and implement cost-effective policies to increase the pace of energy efficiency adoption across the entire economy, and a particular emphasis should be placed on driving energy efficiency in America's small business sector. For a variety of reasons that we will explore in this hearing, small business has not reaped the benefits of energy efficiency as a tool to reduce energy and operational costs and improve competitiveness as have larger enterprises.

The opportunity to double our energy productivity once again lies before us. The Alliance believes that we can achieve this bold and audacious target in only half as much time as it took us to do so before – by the year 2030. Doubling our nation's energy productivity is eminently doable given the pace of new technology development and deployment, but success hinges on the putting in place the right public policy tools at the federal and state levels.

The national "rewards" for achieving the goal are immense according to the Rhodium Group. We can reduce the national energy bill by an additional $527 billion annually, saving the average American family over $1000.00 annually on energy bills. Doubling energy productivity would create 1.3 million new jobs and would lower our energy imports to only 7% of total consumption. All of this can be achieved while also reducing overall GHG emissions to 1/3 below the level emitted in 2005.

No sector of our economy has more to gain from energy efficiency than small business. According to the Small Business Administration and the National Federation of Independent Businesses (NFIB), small business employs half of America's workforce, and accounts for 42 percent of the total U.S. private sector payroll. The companies with the greatest impact on our economy are the smallest ones, which according to the NFIB are responsible for 63 percent of net new jobs created in the United States between 1993 and 2013.

For many small businesses, energy use is among the top costs of doing business, according to the NFIB. Yet, while small business is a relatively untapped market for energy efficiency, the barriers and challenges are much greater than in the case of large companies.

Energy use underlies every aspect of a modern small business, yet small entrepreneurs typically lack the time, information, energy expertise and resources to devote to improving the efficiency of their physical plant. They face barriers such as a lack of information on available programs and incentives; lack of capital for energy upgrades; high financing costs; and, in some cases, "split incentives" where a small business is a tenant in someone else's building. (This is the case for 42% of small businesses, according to the NFIB). As a result, in far too many cases, energy efficiency improvements are never considered.

By focusing on the "business case" for energy efficiency, and demonstrating to small businesses that they can boost profits and/or save money on energy expenditures that can be reinvested in their core business, we can help small businesses improve their bottom line and contribute to an improved national economy. A good example of how this can work are the "Small Business Direct Install Programs" (SBDI) that are being carried out in a number of states across the country.

A report released in April by the Pace Energy & Climate Center demonstrated that the leading New York investor-owned utility demand side management (DSM) programs in terms of delivered mega-watt hours (MWH) of energy efficiency are SBDI programs. In fact, a further look at the program performance charts in the study shows that it is the case for all six IOUs operating in New York that their top performing program is the Small Business Direct Install Program. Small Businesses make up greater than 90% of a utility's commercial customers, and account for nearly half of all commercial electricity usage. These New York programs owe their success to replacing the old program administrator / trade ally model with an open market incentive structure that allows innovative products to compete on a level playing field. These programs have improved the facilities of nearly 100,000 New York State small businesses, reducing their operating costs by more than $1 billion – money that can be poured back into the state's economy.

So who is responsible for this tremendous success and the creation of innovative new business models? The New York Public Service Commission for enacting an energy efficiency performance standard (EEPS), the utilities for embracing change, and a few very innovative companies, like Lime Energy, EnerPath, SmartWatt and Willdan.

In 2008, of these companies, only SmartWatt had a handful of employees in New York. Through their SBDI Programs, these companies have hired nearly 200 employees in the state and created thousands more jobs in the delivery of the programs. The innovative program delivery model developed in New York is being adopted across the nation; some of the most successful small business energy efficiency efforts across the country bear the "Born in NY" label.

And, improving the energy efficiency of small business has proven to be a new business generator. Take for example **Lime Energy,** headquartered in Newark, New Jersey, which not only is providing energy efficiency solutions for small business customers in New York, but also is recognized as a national leader in providing energy efficiency services to utilities and their business customers. Lime Energy operations in New Jersey, North Carolina and California. It employs 292 people and is completing 20,000 energy efficiency projects per year – one every six minutes. They work with 12 of the top 25 electric utilities representing 35% of U.S. electric customers and they have engaged 1.4 million customers across the U.S. in energy efficiency upgrades. Lime Energy epitomizes the business success story of "doing well by doing good."

There are a legion of success stories from companies across the country who have figured out the energy efficiency translates into greater profitability and competitiveness. At a time when cost savings are crucial for most small businesses and utility costs are rising, energy efficiency represents a proven pathway to increased competitiveness and organizational sustainability. I would like to cite just a few examples to the Committee:

Eck Industries of Manitowoc, Wisconsin, is a four generation, family owned small business in the aluminum foundry business. Eck Industries took advantage of the resources made available through Wisconsin's "Focus on Energy" program—a state-based initiative that provides technical and financial resources for energy efficiency projects. Eck Industries worked with the state program to implement a lighting retrofit project that would better illuminate its production facilities. The lighting efficiency improvements proved to be a huge success—the new energy efficient bulbs reduced the energy intensity of the facility's lighting by 46%, the project paid for itself in approximately 8 months, and the company realized annual operating savings of more than $55,581.

South Shore Millwork is a small business providing fine architectural woodwork. Looking to improve the efficiency of their physical plant by installing energy efficient equipment through the MASS Save Program, the company installed high efficiency lighting systems and controls, occupancy sensors, and variable speed drives at a total project cost of $218,000. The project saved $30,500 annually with a payback of 4.5 years, and a carbon reduction of more than two tons annually.

Mid-South Metallurgical is a niche commercial heat treating company located in Murfreesboro, Tennessee. The facility operates 24 hours a day and deals with drastically different furnace temperatures for its parts, causing problems with expansion, contraction, and heat loss. To resolve this, the Industrial Assessment Center sponsored by the DOE at the University of Tennessee conducted an evaluation in which they discovered several areas where the company could save energy such as better furnace insulation, lowered peak energy demand through an electrical demand system, energy efficient furnace burner tubes, and improvements in the lighting system. By accepting these recommendations, Mid-South lowered its energy use by 22 percent and decreased its energy costs by 18 percent. After improving its energy efficiency in 2008, the company outperformed its competitors throughout the recession and received the DOE's Energy Champion Award for reducing energy use by over 15 percent.

There are existing tools already to help small and medium sized companies improve their profit margins through energy efficiency upgrades. Many of these tools are not sufficiently known in the small business community — and awareness of available resources is an area where more needs done in terms of outreach and "marketing" energy efficiency to small and medium sized companies.

The Small Business Administration has many programs designed to help companies unlock the capital needed to finance energy efficiency investments, such as the SBA Section 504 program that helps small businesses buy their real estate or equipment, instead of renting.

Programs like the Department of Energy's Industrial Assessment Centers play an important role in helping companies, through free energy audits, to determine where investments in "EE" are likely to deliver the greatest return. And, the EPA's Energy Star program provides resources to help small businesses to improve the efficiency of their physical plants.

Energy efficiency remains the simplest and most cost-effective way to control energy spending. The most energy-efficient buildings in America — those that have earned EPA's ENERGY STAR — use 35 percent less energy than typical buildings. Avoided energy costs in small commercial buildings can provide real savings for small business.

Mr. Chairman, we meet at a time when the Members on both sides of the aisle and in both chambers are placing a priority on energy efficiency. We recently witnessed an important milestone with enactment of S. 535, the Energy Efficiency Improvement Act, which was authored by Ranking Member Jeanne Shaheen and Senator Rob Portman. This was the first bi-partisan energy bill of the 114th Congress to be signed into law. On the heels of that accomplishment we believe the timing is right to start moving more bipartisan energy efficiency bills in this session.

Two important efficiency bills that could improve the economic viability of small business and currently pending in the Senate are:

(1) S. 1054, the Smart Manufacturing Leadership Act introduced by Senator Shaheen. This bill would increase the productivity and efficiency of the manufacturing sector by directing the Department of Energy to develop a smart manufacturing plan and to provide assistance to small and medium sized manufacturers in implementing smart manufacturing programs; and,

(2) S. 720, the Energy Savings and Industrial Competitiveness Act of 2015, introduced by Senators Portman (R. OH) and Shaheen, which would benefit small businesses generally by increasing energy productivity, enhancing energy security, and contributing to economic growth, all of which will serve the interests of small business in America.

I urge the Committee to lend its active support to these two bills that will greatly benefit small business. And I applaud the Committee for providing this opportunity to focus on the backbone of America's economy: small business. This hearing and others like it help to illuminate the successes of small business owners who improve their operating costs, and influence others in their decision to invest in energy efficiency. Thank you for this opportunity to testify, and I would be glad to respond to any questions you may have.

Respectfully Submitted,

Kateri Callahan, President

The Alliance to Save Energy